

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Redmond's annual financial report provides a narrative overview of the city's financial activities for and financial position at the end of December 31, 2002. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow. Previous year (2001) comparable data is not available for the 2002 report due to a change in reporting format. Comparable data will be provided in the 2003 annual financial report.

### Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equal \$382,748,527. A total of 74%, or \$283,143,913, of total net assets is invested in capital such as streets, land and buildings. Of the remaining net assets, \$96,652,735, of total net assets is available to meet the government's ongoing activities and obligations and \$2,928,519 is restricted for debt service.
- The government's net assets increased by \$39,533,444 in 2002. Capital assets comprised \$36,789,287 of the increase with \$18,400,000 of this amount contributed by developers.
- Governmental fund balances at year end were \$67,060,954, an \$873,587 increase over the prior year. Of this amount, a total of \$65,113,725, or 97%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$39,797,635 being earmarked for capital project activities.
- Unreserved fund balance in the general fund was \$5,014,413, a decrease of \$943,938 from the prior year. An additional fund balance of \$4,980,227 is available in the operating reserve fund to provide the capacity to offset significant downturns and revisions in any general municipal purpose fund in accordance with the city's operating reserve policy.
- Total city debt, excluding special assessment debt, decreased \$2,136,524 as outstanding bonds and loans were paid down. Outstanding bonded debt, loans, and long term contracts at year end totaled \$18,141,491.

### Overview of the Financial Statements

The city's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

#### Government-wide financial statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the city as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the city include general government (finance, executive, human resources), security (police and fire), physical environment, economic environment, transportation, mental/physical health, and culture and recreation. The city's business-type activities are limited to water/wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The *statement of net assets* presents information on all of the City of Redmond's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the city's overall financial health.

The *statement of activities* presents information designed to show how the city's net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting,

requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

### Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the city's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Redmond, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The city's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues/financial resources and expenditures while the government-wide financial statements include both near term and long term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the city's near term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the city's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City of Redmond maintains twenty-six individual governmental funds. The city's three major governmental

funds, the general fund, the LID control fund, and the capital improvements program fund are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later on in this report.

The city maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund as a basic financial statement. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

**Proprietary funds** are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Redmond has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the city are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the city's water/wastewater utility, an Urban Planned Development (UPD) water/wastewater utility outside the city limits, and the city's stormwater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the city's various functions. The city uses internal service funds to account for its fleet of vehicles, insurance premiums and claims, medical self-insurance, workmen's compensation self-insurance program, and information technology. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly

governmental and have been included in the governmental activities column of the government-wide statement of net assets.

**Fiduciary funds** account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Redmond's activities.

The city has two types of fiduciary funds, a pension fund and agency funds. The accounting for the pension fund is on the accrual basis. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

### **Notes to the financial statements**

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

### **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain **required supplementary information** concerning the city's progress in funding its obligation to provide pension benefits to certain retired firefighters. Required supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds, internal service funds, and agency-type fiduciary funds are presented immediately following the required supplementary information.

## **Government-wide Financial Analysis**

### **Statement of net assets**

The statement of net assets can serve as a useful indicator of the city's financial position. The City of Redmond's net assets at December 31, 2002 total \$382,748,527. Following is a condensed version of the government-wide statement of net assets. Since this is the first period in which the City of Redmond is reporting on the new government-wide basis, no previous year comparable data, as required by GASB 34 reporting requirements, is available. Comparable data will be provided in the 2003 annual financial report.

## City of Redmond's Net Assets

	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Current and other assets	\$ 86,618,096	\$ 33,059,419	\$119,677,515
Capital assets, net of accumulated depreciation	162,969,952	138,644,633	301,614,585
Total assets	249,588,048	171,704,052	421,292,100
Long-term liabilities	18,916,538	3,796,904	22,713,442
Other liabilities	12,485,526	3,344,605	15,830,131
Total liabilities	31,402,064	7,141,509	38,543,573
Net assets			
Invested in capital assets, net of related debt	147,897,892	135,246,021	283,143,913
Restricted	62,066,262	1,004,650	63,070,912
Unrestricted	8,221,830	28,311,872	36,533,702
Total net assets	\$ 218,185,984	\$ 164,562,543	\$ 382,748,527

The largest component of the city's net assets, 74% or \$283,143,913, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. The city has elected the GASB 34 reporting option to include all general infrastructure of the city acquired or substantially renovated since 1980.

Approximately 10% or \$39,797,635 of the total net assets of the city are earmarked for general government construction projects such as renovation and construction of sports fields in city parks, widening and rehabilitation of West Lake Sammamish Parkway, construction of a new City Hall, and construction of a new fire station on Education Hill. The city attempts to fund its capital construction projects on a pay as you go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the city that impact the transportation system.

The remaining balance of net assets is divided among restrictions for petty cash of \$23,360, debt service payments of \$2,928,519 (.8% of total net assets) and net assets intended to fund various activities of the city. A total of \$28,311,872 represents the unrestricted net assets of the city's business-type activities and may only be

spent on water/wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump stations, wells), storm drain flushing, water meter reading, and capital construction projects such as well rehabilitation are examples of utility activities. Other functions of the city may access the remaining net assets of \$28,543,228 to meet ongoing obligations to citizens and creditors. Examples of other city obligations which these net assets may be used for are public safety employee salaries, park sports field maintenance (mowing, fence repair), and ongoing street maintenance (street sweeping, lane restriping, resurfacing).

At the end of the fiscal year, the City of Redmond reported positive balances in all three categories of net assets, for the government as a whole, as well as for the separate governmental and business-type activities.

## Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the city resulting from its operating activities. The City of Redmond's net assets increased approximately \$39.5 million in 2002. The increase was split between the government activities (\$17.1 million) and the business-type activities (\$22.4 million). Since this is the first period of the City of Redmond reporting on the new government-wide basis, no previous year comparable data, as required by GASB

34 reporting requirements, is available. Comparable data will be provided in the 2003 annual financial report.

Following is a condensed version of the city's changes in net assets. The table shows the revenues, expenses, and

related changes in net assets in tabular form for the governmental activities separate from the business-type activities. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

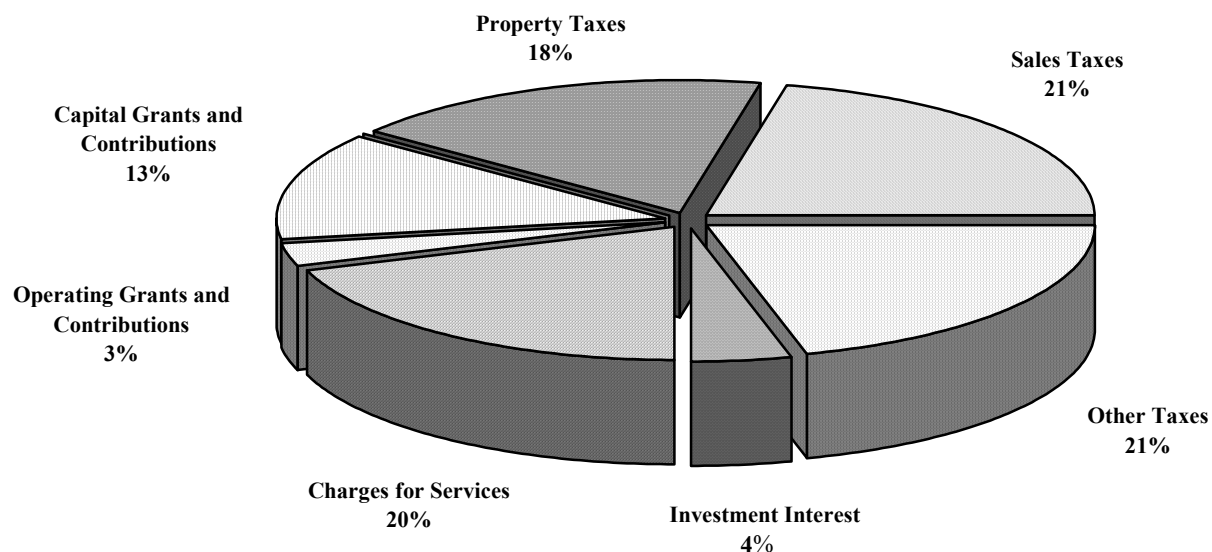
### City of Redmond's Changes in Net Assets

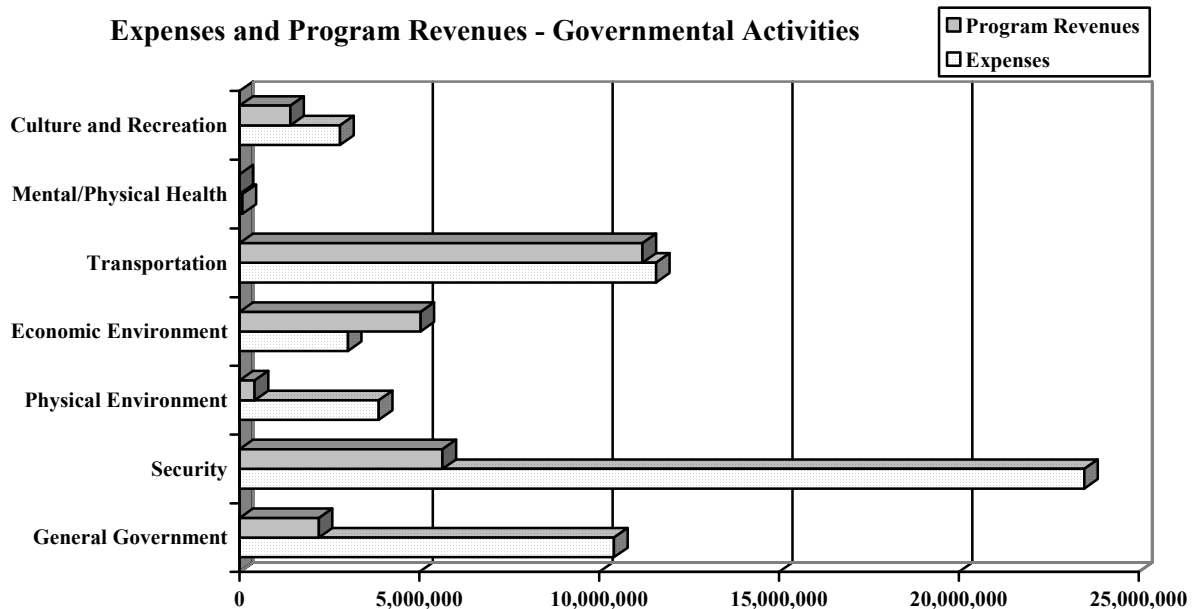
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Revenues:			
Program revenues			
Charges for services	\$ 14,355,237	\$ 25,644,676	\$ 39,999,913
Operating grants and contributions	1,969,740	-	1,969,740
Capital grants and contributions	9,615,994	19,078,302	28,694,296
General revenues			
Property taxes	12,973,803	-	12,973,803
Sales taxes	15,904,505	-	15,904,505
Other taxes	15,117,493	-	15,117,493
Investment interest	3,051,634	1,134,803	4,186,437
Miscellaneous	285,109	53,798	338,907
Total revenues	<u>73,273,515</u>	<u>45,911,579</u>	<u>119,185,094</u>
Expenses:			
General government	10,412,581	-	10,412,581
Security	23,486,809	-	23,486,809
Physical environment	3,875,341	-	3,875,341
Economic environment	3,017,641	-	3,017,641
Transportation	11,582,626	-	11,582,626
Mental/physical health	85,237	-	85,237
Culture and recreation	2,798,490	-	2,798,490
Interest on long term debt	910,211	-	910,211
Water/wastewater	-	17,286,285	17,286,285
UPD water/wastewater	-	1,621,951	1,621,951
Stormwater	-	3,937,122	3,937,122
Total expenses	<u>56,168,936</u>	<u>22,845,358</u>	<u>79,014,294</u>
Increase in net assets before transfers and special items	17,104,579	23,066,221	40,170,800
Transfers	15,717	(15,717)	-
Special items	-	(637,356)	(637,356)
Increase in net assets	<u>17,120,296</u>	<u>22,413,148</u>	<u>39,533,444</u>
Net assets – beginning	201,065,688	142,223,932	343,289,620
Prior period adjustment	-	(74,537)	(74,537)
Net assets – ending	<u>\$ 218,185,984</u>	<u>\$ 164,562,543</u>	<u>\$ 382,748,527</u>

**Governmental activities** contributed \$17,120,296 of the total change in net assets of \$39,533,444. Key elements of the increase are as follows:

- The bulk of the governmental activities increase (\$12,259,503) was in capital assets. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- Revenues that support ongoing operations were relatively flat in total. Fluctuations in specific revenues primarily offset each other however, some revenues are for restricted purposes while others are not restricted. Sales tax revenue was down \$696,228 (4.2%) while the city received \$821,111 in Emergency Medical Services (EMS) funding for basic life support related to 911 calls from King County. While these two sources appear to primarily offset each other, it is important to note that sales tax money is unrestricted in its use while EMS funding is restricted.
- Property tax revenue increased \$456,467 for new construction only as there was no increase in the property tax rate. This increase was offset by a decrease in funding from the state of \$424,675 due to lower motor vehicle excise taxes. A citizen-passed initiative lowered the State's motor vehicle excise tax. Although this initiative was found unconstitutional, the State legislature chose to abide by the portion of the initiative that lowered the car tab fee to \$30 resulting in this decrease in motor vehicle excise funding to the city.
- The city was aggressive in limiting its operating expenses for 2002 when faced with these flat or declining revenues for general operations. The resulting excess of revenues over expenses added approximately \$2 million to net assets in 2002.

**Revenues by Source - Governmental Activities**

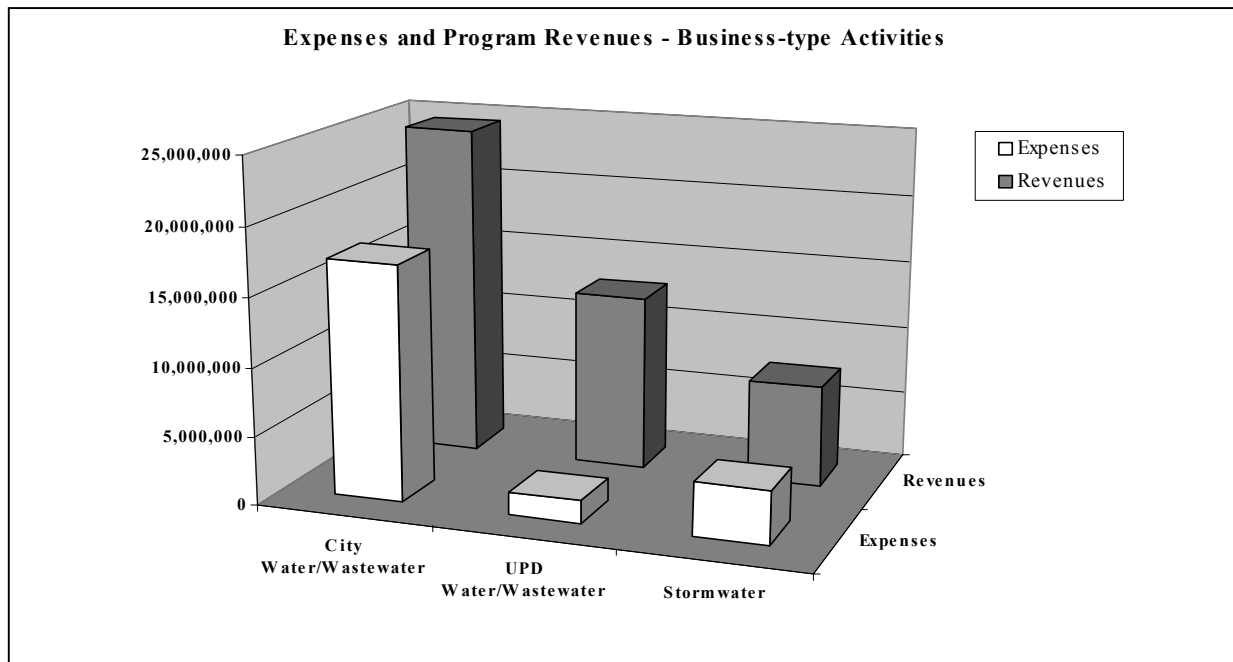
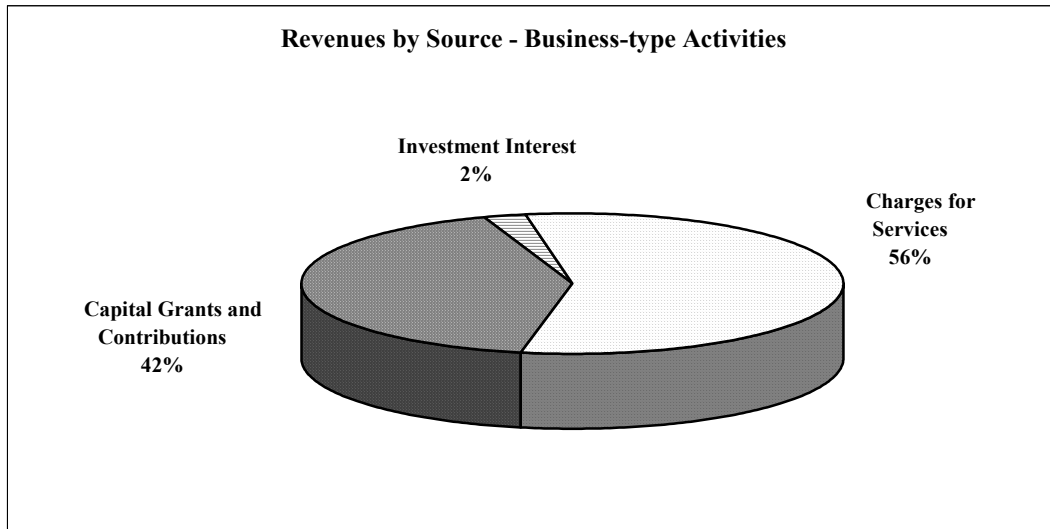




**Business-type activities** of the city's utilities increased the City of Redmond's net assets by \$22,413,148, accounting for 57% of the total growth in the government's net assets.

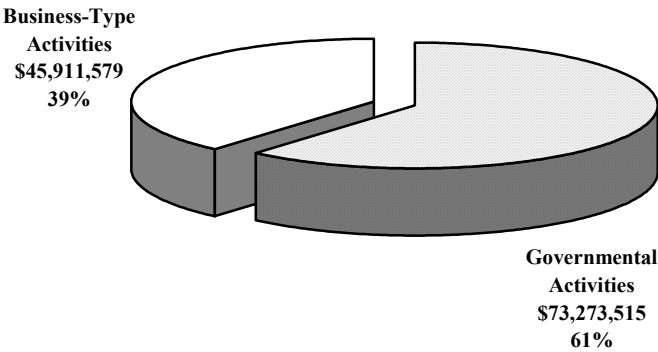
Key elements of this increase are as follows:

- Capital contributions emerged as a major revenue source for the utilities during the current year, producing over \$19 million in revenue. Capital assets totaling more than \$11 million were contributed by the Redmond Ridge Urban Planned Development (UPD) and another \$5 million in capital assets was contributed by other development. The remaining \$3 million is attributable to connection fees and capital facility charges.
- Water/wastewater operating revenues for 2002 were \$17,182,142, a 12.5 % increase over 2001. This increase was due to an increase in water consumption and a full year of revenue at the increased rates implemented in mid-year 2001 for water and sewer.
- UPD Water/wastewater operating revenues for 2002 were \$1,599,788, a 67% increase over 2001. This increase was due to continued growth in the UPD development and a full year of revenue at the increased rates implemented in mid-year 2001 for water and sewer.
- Stormwater operating revenues for 2002 were \$6,862,746, a 2% increase over 2001 due to growth within the city.
- Investment earnings for the business-type activities decreased \$391,945 over 2001 due to lower interest rates.
- As discussed in Note 11, a change in the capitalization threshold from \$1,000 per individual asset to \$10,000 per asset resulted in a restatement of beginning net assets and a reduction in net assets of \$43,096 in the UPD Water/Wastewater utility, \$81,185 in the Water/Wastewater utility, and \$440,765 in the Stormwater utility.
- As discussed in Note 12 a prior period adjustment resulted in a decrease of \$74,537 in the Water/Wastewater net assets due to the write-off of the 1991 water comprehensive plan.
- As discussed in Note 12 a special item adjustment reduced the UPD Water/Wastewater net assets by \$744,229 and increased the Water/Wastewater net assets by \$106,873.

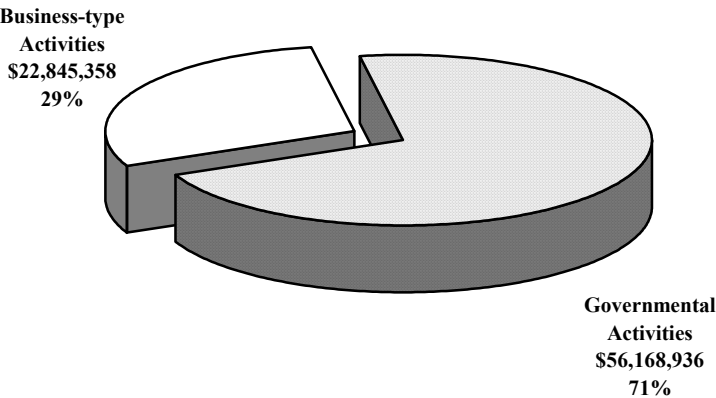




2002 Comparison of Total Revenues



2002 Comparison of Total Expenses



### **Financial Analysis of the Government's Funds**

As discussed earlier, the City of Redmond uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### **Governmental funds**

The purpose of the city's governmental funds is to report on near term revenues/financial resources and expenditures. This information helps determine the city's financial requirements in the near future. In particular, fund balance is a good indicator of the city's resources available at the end of the year.

At the end of the current year the city's combined ending governmental fund balance was \$67,060,954. This was a nominal increase of \$873,587 or 1.3% over the ending fund balance of the prior year. Of the total ending fund balance, \$1,923,869 is reserved for debt service. Of the remaining fund balance, \$39,797,635 is earmarked for capital construction projects and \$20,301,677 resides with special revenue funds. Significant special revenue fund balances include \$6,050,421 in the operating reserve fund, including general reserves and development reserves, \$3,372,626 in equipment reserve funds, and \$6,747,670 in the business license surcharge fund for future transportation projects.

The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2002 the fund balance of the general fund was \$5,037,773. As a measure of the fund's liquidity, the ending fund balance is 11.5% of the fund's 2002 expenditures.

The general fund balance decreased \$940,578 from the prior year. Revenues and expenditures remained fairly constant between the two years, increasing 1.3% and .3% respectively. Revenues exceeded expenditures in the general fund by \$4,332,051 in 2002. In keeping with the city's policy to fund capital projects on a pay as you go basis, net transfers out of the general fund totaled \$5,272,629, primarily to capital project funds.

With revenues increasing a modest 1.3%, no one general fund revenue source showed a marked change from 2001. The city is, however, closely monitoring its sales tax revenue, which declined 5% in the general fund in 2002. General fund expenditures were closely monitored in 2002 resulting in a miniscule increase of \$143,002 or less than one half of one percent. All departments funded by the general fund worked together to limit their expenditures with minimal impact on currently provided public services.

The LID control debt service fund has a fund balance of \$840,986, down from \$1,364,113 in 2001. The purpose of this fund is to collect special assessments from property owners benefited by a local improvement district construction project and to pay from those collections the bonds issued to finance the project construction. The ending fund balance is a reflection of the timing of the special assessment collections compared to the timing of the bond calls. One special assessment bond issue was paid in full in 2002.

The capital improvements program fund ending fund balance was \$38,799,270, an increase of \$3,484,996 from 2001. Several factors contributed to this increase. Four small capital project funds were closed and their activities and prior year's fund balances were combined with the capital improvements program fund. As a result, \$3.9 million was transferred from these funds to the capital improvements program fund. The city requires developers to directly contribute to some transportation capital projects if the developers will benefit from the project or their development will greatly impact the city's transportation system. Contributions from developers were up \$3,188,619 in 2002. Capital construction project expenditures were \$3,646,459 higher than in 2001, primarily from the consolidation of funds discussed previously. Finally, investment income was up \$192,929 from 2001 due to the higher cash balances available to invest.

#### **Proprietary funds**

The City of Redmond's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the city's proprietary funds have already been addressed in the discussion of the city's business-type activities.

## General Fund Budgetary Highlights

The City of Redmond budgets on a biennial basis with each budget beginning in an odd numbered year by state law. The difference between the 2001/2002 biennial budget adopted at the end of 2000 and the final 2001/2002

biennial budget amounts to \$1,300,754.

Revenues increased in the following categories:

- Beginning fund balance increased \$914,281 due to a higher than anticipated ending fund balance at December 31, 2000.
- Natural gas taxes                      \$ 60,000
- Cable franchise fees                  \$ 140,000
- Grants                                      \$ 152,380
- Miscellaneous                          \$ 34,093

Expenditure increases occurred in various functional areas and were as follows:

- The \$914,281 increase in beginning fund balance funded goods and services budgeted in the previous biennium (1999/2000) but not received by year end in all functional categories. Expenditures for these goods and services were reappropriated in 2001/2002.
- The \$152,380 grant increases funded security expenditures in the areas of increased homeland security, fire department overtime at out of area wildfires, and an underground vault for confined space training.
- The cable franchise fee increase of \$140,000 funded the cable franchise fee renewal process for the city's cable television franchise.
- The \$60,000 in natural gas taxes funded a program to provide assistance to low income families in paying their home heating bills.
- The \$12,052 in contributions funded city special events such as Derby Days and Holiday Lights.
- The \$22,041 insurance reimbursement went toward repair of a street and traffic signal damaged in an accident.

## Capital Asset and Debt Administration

### Capital Assets

The City of Redmond's investment in capital assets for its governmental and business-type activities as of December 31, 2002 amounts to \$301,614,585 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges.

Major capital assets changes during 2002 included the following:

- Two fire trucks were replaced with new 2002 trucks at a cost of \$777,979.
- Land was acquired for a park in SE Redmond at a cost of \$1,208,872 to be paid in four annual installments.
- Additional right of way was acquired for the expansion of Union Hill Road valued at \$1,068,778.
- General government capital investment projects including streets and parks were completed at a total cost of \$9,256,025.
- General government capital investment projects currently under construction are valued at \$11,565,032. These include renovation of the city's Teen Center, phase 2 of West Lake Sammamish Parkway, and transportation projects in the Overlake area.
- Private developers contributed streets and traffic signals valued at \$2.4 million.
- Capital assets contributed to the UPD water/wastewater utility totaled \$11 million and \$5 million in capital assets were contributed to the city water/wastewater utility.
- City utility projects completed in 2002 include a new well and transmission main, sewer trunk and stormwater projects on the Sammamish River at a total cost of \$6,777,143.

- Utility projects under construction at a cost to date of \$4,807,115 include water quality improvements at three wells, rehabilitation of a pump station, and Idylwood stream rehabilitation.

**City of Redmond's Capital Assets (net of depreciation)**

	Governmental Activities	Business-Type Activities	Total
Land	\$ 39,416,160	\$ 4,970,966	\$ 44,387,126
Buildings/Building Improvements	20,687,569	13,393,331	34,080,900
Improvements other than buildings	4,059,550	113,928,419	117,987,969
Machinery and equipment	8,069,692	471,509	8,541,201
Construction in progress	11,565,032	5,880,408	17,445,440
Infrastructure	78,973,694	-	78,973,694
Art	198,255	-	198,255
<b>TOTAL</b>	<b>\$ 162,969,952</b>	<b>\$ 138,644,633</b>	<b>\$ 301,614,585</b>

Additional information on the City of Redmond's capital assets can be found in Note 6 of this report.

**Long-term debt**

At the end of the current fiscal year, the City of Redmond had total bonded debt outstanding of \$14,975,000. Of this amount, \$9,635,000 is general obligation bonds, \$2,485,000 is special assessment debt with governmental commitment, and \$2,855,000 is revenue bonds for the Water/Wastewater Utility.

**City of Redmond's Outstanding Debt -  
General Obligation and Revenue Bonds**

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 9,635,000	\$ -	\$ 9,635,000
Special assessment debt with governmental commitment	2,485,000	-	2,485,000
Revenue Bonds	-	2,855,000	2,855,000
<b>TOTAL</b>	<b>\$ 12,120,000</b>	<b>\$ 2,855,000</b>	<b>\$ 14,975,000</b>

The City of Redmond maintains a AA rating from Standard & Poors and a AA2 rating from Moody's for general obligation debt. Revenue bonds for the Water/Wastewater Utility have been rated A from Standard & Poors and A1 from Moody's. Special assessment bonds are unrated.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2002 was \$8,229,630,575 and remaining debt capacity is as follows:

General	\$ 196,318,617
Open Space/Park Facilities	204,724,347
Utilities	205,740,764
<b>TOTAL</b>	<b>\$ 606,783,728</b>

The total amount of unlimited tax and limited tax general obligation debt the city may issue is \$617,222,292. Additional information on the City of Redmond's long-term debt can be found in Note 9 of this report and in the Statistical Section of the report.

## Economic Factors and Next Year's Budgets and Rates

Several factors that affect the economic climate in Redmond were considered when preparing the city's 2003-2004 biennial budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Redmond. The character of the city, including its current and future business activity and its attraction as a place to live, was evaluated. Current financial position and the ability of the city to thrive under its adopted fiscal policies were also given due consideration. Based on the budget analysis, Redmond's future is promising amid some short-term challenges.

The national economy is in the midst of a moderate recession with a weak labor market. The State of Washington is facing a considerable budget shortfall, however the state's budget woes will have only a minimal effect on Redmond's transportation capital funding from the state. King County is also experiencing fiscal

problems and is attempting to transfer the cost of many regional services to cities. Redmond has been successfully working with King County and surrounding cities to continue regional services with little or no increase in costs to the city.

The regional economy in Puget Sound was primarily affected in the aerospace and high-tech sectors. Aerospace has little effect on Redmond's economy and its major high-tech player, Microsoft, has escaped the downturn in high-tech relatively unscathed. Microsoft continues to add to both its workforce and its office space in Redmond.

During the last decade the City of Redmond has grown tremendously and its attraction as a place to live and work is clear. In 2002 two major retailers, Home Depot and Fred Meyer, opened their doors in the city. Additional retailers scheduled to open for business in 2003 include the Bon Marche, Cost Plus Imports, and a full-service Marriott Hotel. These activities are occurring in Redmond despite a regional economic downturn, indicating strong business confidence in Redmond's future.

Redmond has a history of excellent financial management and prudent fiscal policies. Adherence to these financial management practices and policies has served the city well and set the stage for a community that will thrive for many years to come.

## Requests for Information

This financial report is designed to provide a general overview of the City of Redmond's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Finance Director, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.